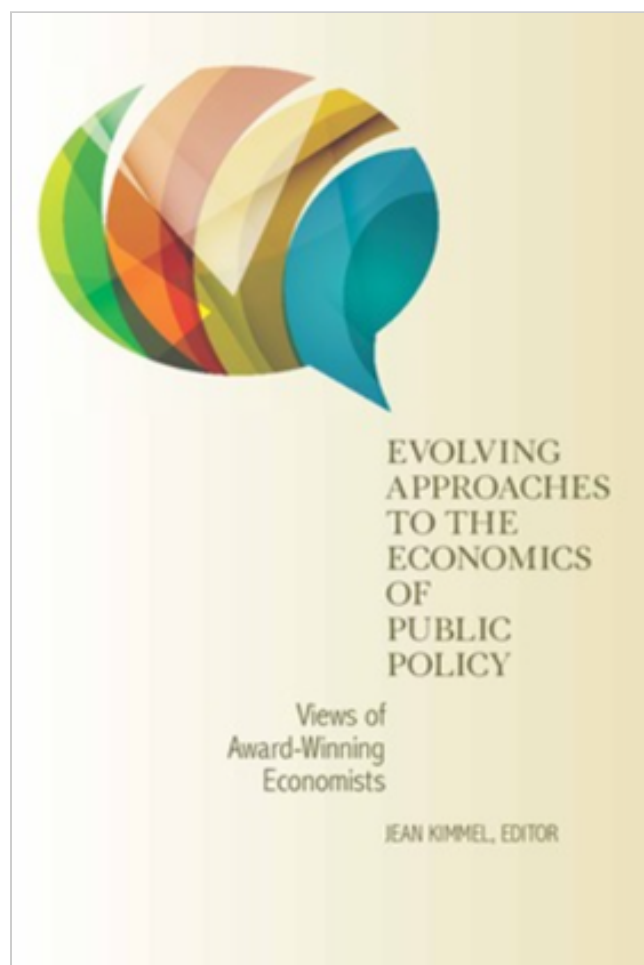


An interdisciplinary approach to advancing public policy

Evolving Approaches to the Economics of Public Policy: Views of Award-Winning Economists. By Jean Kimmel. W. E. Upjohn Institute for Employment Research, 2016, 175 pp., \$11.02 paperback, \$25.51 hardcover.

In *Evolving Approaches to the Economics of Public Policy: Views of Award-Winning Economists*, Jean Kimmel compiles five research papers to demonstrate how economics can be used to advance public policy. The book is a continuation of Kimmel's series titled "Award-Winning Economists Speak on Contemporary Economic Issues." The topics covered in the book include microfinance, human capital, worker motivation, societal institutions, and workplace regulation. Each of the book's chapters is penned by a different set of authors who draw conclusions from their own works about what their findings mean for public policy. An introductory chapter by Kimmel is primarily descriptive; however, it explains that the book's papers go beyond public policy, adopting a research perspective that combines traditional economic approaches with insights from psychology and sociology.

Following Kimmel's introductory chapter, the book dives into several research topics. The second chapter, by Erica Field, Abraham Holland, and Rohini Pande, discusses the history of microfinance, how microfinance is understood today, and how the policies surrounding it should be adapted for an optimal outcome. The authors start by noting that microfinance has traditionally been perceived as a "miracle drug" or a "magic bullet" in solving the problem of poverty. However, they show that while microfinance has had some positive impacts on business improvement and creation, it is not sufficiently developed to meet the high expectations placed on it. To illustrate this point, the authors compare microfinance to an undeveloped version of



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penicillin: although penicillin was discovered in 1928, its mass production and distribution did not become possible until decades later. The authors also look at the future of microfinance, examining various possibilities for making it more effective. Among the topics covered are how microfinance can adopt greater repayment flexibility, how it can encourage business development directly, and how psychology and sociology can be used to help advance credit in lieu of traditional loans provided by a bank.

The third chapter, by Nancy Folbre, explores how the investment value of human capital has shifted over time. Folbre begins with a brief overview of human capital and how economists have viewed it in the past. She also examines the ways in which human capital has been incentivized and partly financed by the government. The chapter's concluding discussion focuses on the current demand for and perception of human capital. The value of human capital has been steadily decreasing in the wake of technological innovations that either have replaced or will likely replace human labor in certain jobs. Folbre shows that, amid these innovations, people today are misled by the idea of human capital, thinking that they will achieve a certain amount of return based on their academic degree, when in reality that return depends on external market forces, individual skill sets, and experience.

The fourth chapter, written by Avner Greif, focuses on the development of economic institutions, their implementation in society, and their impact on economic outcomes. In addressing these issues, the author considers both sociological factors, such as culture and social structures, and economic factors, such as markets and government structures. He then turns to discussing morality as a deeper root of institutions, suggesting that institutions are the product "of social factors that conjointly generate a regularity of behavior (in a social situation)." He concludes the chapter by comparing state-driven and society-driven institutional origins, discussing what he calls a theory of action, whereby institutions arise for a specific reason and then evolve with the society in which they are embedded. Greif states that "society and state intertwine in generating behavior," implying that state-based and society-based factors not only drive institutional formation but also coevolve.

The fifth chapter, written by David M. Kreps, focuses on labor economics, particularly on industrial relations and industrial organizational psychology. Kreps discusses the idea of "consummate effort," which he describes as the "effort undertaken by a worker within an organization that goes well beyond any nominal job description, in a manner that is desired by the organization." The author begins by examining a study based on a survey that asks respondents what it would take for them to display consummate effort in their work. The same question is also asked of survey respondents in senior positions. Results of the survey show that people are primarily driven by nontangible rewards, such as pride in their company or personal satisfaction. Kreps then adopts a social psychologists' perspective to examine two different scenarios: one involving nurses and one a technology startup. The nursing scenario starts off with the nurses caring about what is best for the patient, but as costs mount, their decision making becomes centered less on what is best for the patient and more on what is cost effective. In the second scenario, a technology startup initially motivated by nontangible rewards grows and, as time goes by, begins to experience tensions between employees who are incentivized by money and employees who are not. Kreps concludes with a hypothetical debate between an economist and a psychologist who are discussing the evidence presented in the chapter. The narrative presents the psychologist as the winner, suggesting that the psychologist has a better model for understanding worker motivation. Kreps conclusion does not mean that economists are entirely wrong, only that their models do not capture the full picture. Therefore, economists should welcome the ideas of psychology to improve their own models.

The final chapter, written by Michael J. Piore, focuses on government regulation of the market. Piore takes a historical approach, starting with a discussion of the federal government's policies in the wake of the Great Depression and also noting the deregulation efforts of President Ronald Reagan. Piore observes that although the attitudes surrounding government regulation have varied from decade to decade, the arguments for and against regulation have remained the same. Those in favor of regulation feel that the economy is safer under a more watchful eye, and those against regulation feel that the benefits of letting the market adjust without intervention outweigh the risks. Piore examines work regulation in the United States and compares it with that in other countries and parts of the world, primarily France and South America. He notes that the "Franco-Latin" system of work regulation is much more relaxed, allowing the French to more easily adapt to technological innovations. While the U.S. system focuses on top-down sanctions, the Franco-Latin system utilizes a conciliation-and-conflict-management approach. Piore explains that the Franco-Latin system encourages inspectors to address a problem's root causes, whereas the U.S. system only looks at the problem's consequences. He writes that "it is like the difference between a doctor focusing on the symptoms and one focusing on the disease." Piore concludes that the success of the Franco-Latin work regulation system is largely due to its flexibility and capacity to appropriately communicate and address issues that arise.

Overall, *Evolving Approaches to the Economics of Public Policy* is an incredible book for anyone who is interested in the future of economics as it relates to public policy. The papers included in the book are revolutionary in their own respective fields, but put together, they show that the future of economics can encompass insights from many different disciplines in order to guide public policy. Kimmel's editorial effort at integration is a tremendous success, and the individual contributions made by the other authors make this book a team victory.